

UNIVERSITY OF COLOMBO

FACULTY OF ARTS

Postgraduate Diploma in Economic Development (PgDED) – 2018

(First Semester)

PgDED 5104: Finance and Development

Answer Any Four (04) Questions only

Time Allowed: 03 Hours Only

- (1) (a) "The financial system plays the key role in the economy by stimulating economic growth". Examine the statement giving more emphasis on financial markets and structure. (12 marks)
- (b) Critically examine the key functions and economic role of the financial system. Out of them which function or economic roles you think is the most important for developing countries. Explain your answer. (13 marks)
- (2) (a) "The existence of different types of financial markets are crucial to manage information asymmetry and its related issues". Do you agree with the statement? explain your answer providing examples where necessary. (12 marks)
- (b) Examine the role of financial intermediaries in overcoming issues related with information asymmetry. (13 marks)
- (3) (a) Explain the interest rate using present value method. Do you think present value method is the best way to explain the rate of interest? Explain your answer. (12 marks)
- (b) Economic agents are interested to know the future interest rate than past and present rates of interest. Why do you think future rate of interest rate is so important? Explain your answer with examples. (13 marks)
- (4) (a) Using money and bond markets explain how interest rate is determined in a competitive environment. (12 marks)
- (b) "Loanable Fund Approach to the determination of interest rate is a much better approach than the theory of Asset Demand". Do you agree with the statement? Explain your answer. (13 marks)

- (5) (a) "According to the Liquidity Preference Theory, the interest rate is formed largely on uncertainty of the future interest rate". Do you agree with the statement? Explain your answer. (12 marks)
- (b) Do you think the relationship between money supply and interest rate explained in the Liquidity Preference Theory always hold? Explain your answer. (13 marks)
- (6) (a) "According to expectations theory, the buyers of bonds do not prefer bonds of one maturity over another if the expected return on these bonds are equal. Critically examine the statement". (12 marks)
- (b) Do you think the Liquidity Premium Theory is more suitable to understand the term structure of interest rate? explain your answer providing examples where necessary. (13 marks)
- (7) (a) "Countries with better-developed financial systems tend to enjoy a sustained period of economic growth". Using Financial Liberalization hypothesis explain the statement. (12 marks)
- (b) Recommend at least 3 policies that can help a developing country like Sri Lanka to achieve financial development. Explain your answer drawing examples from Sri Lankan Financial liberalization experience. (13 marks)
- (8) (a) Explain the difference between simple and expanded methods of multiple deposit creation. (12 marks)
- (b) The deposit multiplier approach is a useful method to enhance economic growth in developing countries? Explain your answer with examples where necessary. (13 marks)
- (9) (a) Monetary policy is a key tool used by central banks around the world to achieve several economic objectives.
- Mention three (3) reasons why monetary policy in developing countries is different to developed countries.
 - Explain how the monetary policy can help developing countries achieve economic stability and growth. (12 marks)

(b) Though monetary policy is a useful tool, it has some limitations.

- Explain with appropriate examples at least two (2) limitations which are common in developing countries.
- Explain the fact that monetary policy tools are in competition than complimentary to each other.

(13 marks)
